

**Charter School Facilities Program  
Proposition 51 Funding Round  
Staff Summary Report – February 2018**

<b>Applicant/Obligor:</b>	Libertas College Prep
<b>Project School:</b>	Libertas College Prep
<b>CDS (County – District – School) Code:</b>	19-64733-0131904
<b>School Address/Proposed Site:</b>	3875 Dublin Ave. Los Angeles, 90008 (Cross Streets of Jefferson and Western)
<b>Type of Project:</b>	New Construction (NC)
<b>Type of Apportionment:</b>	Preliminary
<b>County:</b>	Los Angeles
<b>District in which Project is Located:</b>	Los Angeles Unified School District
<b>Charter Authorizer:</b>	Los Angeles Unified School District
<b>Total OPSC Project Cost (NC):*</b>	\$26,000,000
<b>State Apportionment (50% Project Cost):</b>	\$13,000,000
<b>Lump Sum Contribution:</b>	N/A
<b>Total CSFP Financed Amount:</b>	\$13,000,000
<b>Length of CSFP Funding Agreement:</b>	30 Years
<b>Assumed Interest Rate:</b>	3.00%
<b>Estimated Annual CSFP Payment:</b>	\$663,250
<b>First Year of Occupancy (NC Project):</b>	2019-20

*\*The amount identified as total project costs represents an estimate provided by the Office of Public School Construction for purposes of Preliminary-Apportionment financial soundness review. Final project costs will be provided at the time of Final Apportionment.*

Staff recommends that the California School Finance Authority (“Authority” or “CSFA”) Board determine that Libertas College Prep (“School” or “Libertas”), is financially sound for the purposes of Charter School Facilities Program (“Program” or “CSFP”) Preliminary Apportionment. This determination as it relates to Preliminary Apportionment is in place for twelve months and assumes no financial, operational, or legal material findings within this time period. This recommendation is contingent upon Libertas College Prep electing to have its CSFP payments intercepted at the state-level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. Staff recommends that the Authority Board direct staff to notify the Office of Public School Construction (“OPSC”) and the State Allocation Board regarding this determination.

**Application Highlights:** Below staff has highlighted key criteria that were evaluated when conducting its financial soundness review for Libertas. Detailed information is contained in the body of the report.

<b>Criteria</b>	<b>Comments</b>
<b>School Information</b>	
Eligibility Criteria	Libertas College Prep has met all eligibility criteria: (1) Libertas College Prep began operation in 2015; (2) Libertas' charter was approved on August 26, 2014, and is in place through June 30, 2020; and (3) Libertas College Prep is in good standing with its chartering authority, and in compliance with the terms of its charter.
Student Performance	Libertas students have performed on par to slightly better to students from the District as a whole but have underperformed compared to students in a nearby elementary charter school per the “Smarter Balanced” assessment provided by the California Department of Education.
Demographic Information	<ul style="list-style-type: none"> <li>• Libertas College Prep currently has 210 students, and its enrollment is expected to grow to 391 students by 2020-21. The estimated first year of project occupancy is 2019, when the student body is estimated to be 310.</li> <li>• Libertas College Prep’s target population is a student body representative of the socioeconomic, racial, linguistic and cultural diversity of South Central Los Angeles.</li> <li>• Libertas College Prep is located in the Exposition and University Park neighborhoods of South Central Los Angeles, near the campus of University of Southern California. Exposition Park is 56% Hispanic and 39% African American. University Park is 48% Hispanic, 25% White, 16% Asian and 7% African American, with 43% of residents living below the poverty line. The school serves a population roughly 60% Hispanic and 40% African American.</li> </ul>
Debt Service Coverage	The first year of occupancy for the construction project is 2019-20. The projected debt service coverage ratios are 106.8% for 2020-21 and 126.7% for 2021-22. This exceeds the Program’s minimum debt service coverage requirement of 100%. In addition, Libertas does minimal fundraising and, therefore, will not have to rely on it to meet the debt service requirement.
Other Financial Factors	<ul style="list-style-type: none"> <li>• Projected ratios of CSFP payments to operating revenues are 13.8% in 2020-21 and 12.8% in 2021-22 which are within the established maximum range of 10-15%.</li> <li>• Net working capital of \$309,153 for 2015-16 and \$188,502 for 2016-17 represented 22.0% and 9.2% of total expenses, respectively, which exceeds the preferred minimum of 5.0%.</li> </ul>

**Program Eligibility:** On October 6, 2017, at CSFA’s request, verification was received from Los Angeles Unified School District (LAUSD) confirming that Libertas College Prep (1) is in compliance with the terms of its charter agreement, and (2) is in good standing with its chartering authority. Libertas College Prep’s current charter is effective through June 2020. The school opened in 2015 and has the appropriate personnel in place.

**Legal Status Questionnaire:** Staff reviewed the applicant’s responses to the questions contained in the Legal Status portion of the application. No information was disclosed that would lead staff to question the financial or legal integrity of this applicant.

**Project Description:** Libertas is applying for new construction project costs. Currently, the school is located on a shared LAUSD campus at 3875 Dublin Avenue, in South Los Angeles. The target area for the new facility is near this campus, within 2 square miles of the cross streets of Jefferson and Western. The new facility will have 14 classrooms for general education. Additionally the campus will have a resource room for teachers, an office, a gym or outdoor area, and a multi-purpose room/auditorium. Total projected cost for the project is \$26,000,000. Proposed opening of the project is July 2019.

**School Organizational Information:** Libertas College Prep is a public charter school located within the boundaries of LAUSD. Libertas College Prep’s initial charter was submitted to LAUSD in August 2014, was approved and is effective through June 30, 2020. Libertas College Prep is a direct-funded, independent charter school and is operated by a California public benefit corporation with Internal Revenue Service (IRS) approved 501(c)(3) status. Libertas College Prep operates autonomously from the District, with the exception of the supervisory oversight as required by statute and other contracted services as negotiated between the District and the School.

Libertas College Prep is located in the Exposition and University Park neighborhoods of South Central Los Angeles, near the campus of USC. Exposition Park is 56% Hispanic and 39% African American. University Park is 48% Hispanic, 25% White, 16% Asian and 7% African American, with 43% of residents living below the poverty line. The school serves a population roughly 60% Hispanic and 40% African American. Based on LAUSD demographics, African American and Hispanic/Latino students graduate from high school and subsequently attend college at a lower rate than their Asian and White peers. Consequently Libertas has created a 4<sup>th</sup> – 8<sup>th</sup> grade “Middle School” curriculum that focuses on preparing their largely Hispanic and African American student body for high school and higher education.

Due to the academic gaps that many students from Exposition Park and University Park bring from elementary school to middle school, Libertas College Prep enrolls students starting in grade four, giving them the benefit of at least two additional years for remediation of academic gaps while incorporating rigorous upper elementary and middle school curriculum that will prepare them for high-performing high school opportunities. This is achieved by employing two strategic principles: (1) an intensive focus on foundational literacy and numeracy in the lower grades (four through six) and (2) college preparatory rigor in the upper grades (traditional middle school years of seven and eight). In the lower

grades students have 175 minutes of literacy and 100 minutes of math, leveled small group reading instruction, and targeted tutoring. By the upper grades, students continue to have individualized instructional opportunities and work in guided seminar discussions, writing interpretive literary analysis essays, completing student-led research papers, conducting autonomous science labs, and conducting cognitive textual analysis across multiple genres as required by the Common Core.

In addition to intensive academics, the school also develops student character by emphasizing academic perseverance, social intelligence and ethical decision making.

The headmaster of Libertas, Anna Carlstone-Hurst, a fellow at the Building Excellent Schools Fellowship, with lengthy experience in urban education. Ms. Hurst recently completed a leadership residency at Endeavor College Preparatory Charter School, a 2012 California Distinguished School.

Libertas is governed by a seven member board. For 2017-18, the members include: Stephanie Hurder, Board Chair; Bruce Dougan, Vice Chair; Shan Aggarwal, Secretary; Michael Lopez, Treasurer; Sharlene Brown; Kara Maguire; and Pedro Noyola. Staff has reviewed the credentials of the key board members and determined them to have the proper background and experience to govern and effectively oversee the operations of Libertas College Prep.

**School Academic Performance:** The following tables represent the academic performance of Libertas, a local public charter school (New Heights Charter School or NHCS) and Los Angeles Unified School District (District) for 2015-16 and 2016-17. The results are provided through CDE’s CAASPP Smarter Balanced testing data.

**English Language Arts – Comparison**

	Years	
	2015-16	2016-17
Libertas	35%	41%
NHCS	48%	51%
District	39%	40%

	All Students Performance		Student Groups w/ Below Avg. Performance	
	2015-16	2016-17	2015-16	2016-17
Libertas	N/A	Average	N/A	0/3
NHCS	High	Average	0/5	1/5
District	Average	Low	1/11	8/13

**Mathematics– Comparison**

	Years	
	2015-16	2016-17
Libertas	32%	39%
NHCS	35%	47%
District	28%	30%

	All Students Performance		Student Groups w/ Below Avg. Performance	
	2015-16	2016-17	2015-16	2016-17
Libertas	N/A	Average	N/A	0/3
NHCS	Average	High	0/5	0/5
District	Average	Low	1/11	8/13

**Enrollment Trends and Projections:** The tables below present enrollment information for Libertas from 2015-16 through 2021-22.

School Student Enrollment and Average Daily Attendance

	2016	2017	2018	2019	2020	2021	2022
Enrollment	108	162	210	310	365	391	416
ADA	82.6%	97.3%	95%	95%	95%	95%	95%

Libertas is currently limited to two classrooms per grade in a small Prop 39 facility. Once the new facility is built, they will be seeking a material revision from LAUSD to expand their charter to an enrollment of approximately 450 students and plan on adding an additional class per grade starting in 2019-20. Libertas’ current growth rate over their first couple of years demonstrates how successfully they have been able to recruit and retain students. From 2015 to 2016, Libertas’ enrollment grew 186%. From 2016 to 2017, Libertas’ enrollment grew 65.5%. For 2018-19, they have a projected enrollment growth of 74.6% (from 210 to 310 students) and, as of February 2018, have already enrolled enough students to meet that target and have carryover for a waiting list. Libertas’ enrollment projections increase to 93% in 2020-21 and 2021-22 to coincide with the completion of the new facility. Libertas has a well-developed recruitment and marketing plan in which there is 2-3 days a week of active recruitment in the local community as well attendance at local events. Libertas has year round enrollment as it serves a large amount of students who have relocated or those not being served by local schools due to socioeconomic reasons. The assumptions made in the projected years are considered reasonable by staff and consistent based on historical data.

**School Financial Analysis:**

**Financial Data Sources:** This financial analysis is based on the consideration and review of the following for Libertas, the financial obligor and Applicant: (1) audited financial statements for 2015-16 and 2016-17; (2) adopted budget for 2017-18; and (4) budget projections for 2019-20 through 2021-22 along with assumptions.

**Assumptions:** Libertas' financial projections are based upon the following assumptions: (1) occupancy of the new construction project in 2019-20; (2) Libertas' enrollment projections as provided above under "Enrollment Trends and Projections"; (3) ADA rates of at least 95%, which are consistent with historical performance; (4) Local Control Funding Formula (LCFF) per-ADA funding rate of \$9,439 for 2017-18, as included with Libertas' multi-year budget summary document for 2017-18, along with projected changes in LCFF funding level adjustments of 3.9% (2018-19), 2.0% (2019-20), 2.3% (2020-21), and 2.2% (2021-22).

**Long Term Liabilities:** As provided by the 2016-17 audited financial statements, Libertas has a revolving loan with the Authority of \$250,000. The loan requires annual payments of \$50,000. The loan originally had a term of five years and three years of repayment remain. The loan carries an interest rate of 0.3%. The loan is expected to be paid in full in 2019-20.

On December 20, 2016, Libertas entered into a loan agreement for the amount of \$500,000. As of June 30, 2017, \$362,000 was repaid. The loan bears an interest rate of 1.5 percent and a maturity date of June 1, 2024. During 2016-17, Libertas terminated the project and decided to return the unused funds. Additionally, the potential interest costs were forgiven by the lender. On June 30, 2017, the remaining balance was \$138,000. Libertas is paying the balance off over a six month period and the remaining balance is scheduled to be paid in full by June 2018.

It should be noted that Libertas has projected these long term obligations to be paid out of reserve funds and staff has reviewed the projected repayment years to ensure the repayment schedule can be met. Libertas will repaying \$188,000 in 2017-18 with a cash balance of \$377,472; \$50,000 in 2018-19 and 2019-20 with cash balances of \$274,724 and \$935,197, respectively.

**Private Contributions:** Libertas projects a conservative amount of \$5,000 per year in private contributions, based on year-to-date actuals for 2017-18, although they do not need the contributions to meet debt service coverage. Libertas meets debt service coverage without their projected fundraising amount by 106.8% in 2020-21 and by 126.7% in 2021-22, respectively. Based on the school's actual fundraising totals from 2015-16 through the first interim reporting in 2017-18, the fundraising projections are considered reasonable by staff and consistent with the historical data.

**Benchmark Summary and Analysis:** The following table and summary listing sets forth the results of staff's analysis regarding Libertas' financial soundness. Where a threshold has been established based on industry standards or practice, the listing indicates whether or not the threshold was met.

OPERATIONAL, FINANCIAL & STUDENT PERFORMANCE METRICS							
	Actual FY 2016	Actual FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020	Projected FY 2021	Projected FY 2022
<b>OPERATIONAL &amp; FINANCIAL</b>							
Enrollment	89	162	210	310	365	391	416
Average Daily Attendance (ADA)	89	158	200	295	347	371	395
Average Daily Attendance (%)	100.2%	97.3%	95.0%	95.0%	95.0%	95.0%	95.0%
Retention Rate	86.0%	89.0%	90.0%	96.5%	97.0%	96.2%	96.2%
FTE Teachers	6	9	14	18	19	20	21
Pupil-Teacher Ratio	14.8	18.0	15.0	17.2	19.2	19.6	19.8
LCFF Sources/ADA	\$ 9,100	\$ 9,270	\$ 10,053	\$ 9,808	\$ 10,003	\$ 10,238	\$ 10,468
% Change		1.9%	8.4%	-2.4%	2.0%	2.3%	2.2%
Operating Revenues/ADA	\$ 16,803	\$ 12,618	\$ 13,648	\$ 12,760	\$ 12,666	\$ 12,944	\$ 13,151
% Change		-24.9%	8.2%	-6.5%	-0.7%	2.2%	1.6%
Operating Expenses plus CSFP Lease/ADA	\$ 15,738	\$ 12,993	\$ 13,213	\$ 11,447	\$ 11,914	\$ 14,249	\$ 14,039
% Change		-17.4%	1.7%	-13.4%	4.1%	19.6%	-1.5%
Free Cash Flow/ADA	\$ 1,064	\$ (375)	\$ 435	\$ 1,314	\$ 752	\$ (1,305)	\$ (889)
	Actual FY 2016	Actual FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020	Projected FY 2021	Projected FY 2022
<b>DEBT SERVICE COVERAGE</b>							
Total Operating Revenues	\$ 1,498,792	\$ 1,989,848	\$ 2,722,780	\$ 3,757,944	\$ 4,391,857	\$ 4,808,007	\$ 5,197,108
Total Operating Expenses	1,403,865	2,048,970	2,636,054	3,371,057	4,131,114	4,629,594	4,885,059
Total Other Sources/Uses	-	-	-	-	-	-	-
Net Income Available for CSFP Lease Payment	94,927	(59,122)	86,726	386,887	260,743	178,413	312,049
Add Back Capital Outlay	77,286	79,978	-	-	-	-	-
Add Back Depreciation	932	2,923	2,493	4,133	530,800	529,971	528,118
Adjusted Net Income Available for CSFP Lease Pymt.	173,145	23,779	89,220	391,020	791,543	708,385	840,167
CSFP Lease Payments	-	-	-	-	-	663,250	663,250
Free Cash Flow	\$ 173,145	\$ 23,779	\$ 89,220	\$ 391,020	\$ 791,543	\$ 45,135	\$ 176,917
DSC from Adj. Net Income	N/A	N/A	N/A	N/A	N/A	106.8%	126.7%
DSC from LCFF Sources subject to CSFA Intercept						454.5%	497.2%
CSFP Lease Payment/Oper. Revenues	N/A	N/A	N/A	N/A	N/A	13.8%	12.8%
<b>FUNDRAISING</b>							
Fundraising for Operations	\$ -	\$ -	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Fundraising/Oper. Revenues	0.0%	0.0%	0.2%	0.1%	0.1%	0.1%	0.1%
DSC without Fundraising	N/A	N/A	N/A	N/A	N/A	106.1%	125.9%
% of Fundraising Required for 100% DSC	N/A	N/A	N/A	N/A	N/A	-802.7%	-3438.3%
<b>LIQUIDITY</b>							
Current Assets	\$ 412,927	\$ 479,375					
Current Liabilities	103,774	290,873					
Net Working Capital	\$ 309,153	\$ 188,502					
Net Working Capital/Oper. Expenses	22.0%	9.2%					
Unrestricted Cash & Cash Equivalents	\$ 61,248	\$ 154,987					
Unrest. Cash & CE/Oper. Expenses (Days)	16	28					
Unrest. Cash & CE/All Expenses (Days)	16	28					

Benchmark Summary (Threshold):

- Free Cash Flow/ADA – Met: \$120 avg. (< \$0)
- Free Cash Flow – Met: \$37,149 avg. (< \$0)
- Debt Service Coverage from Adjusted Net Income – Met: 106.8% and 126.7%
- Net Working Capital as Portion of Operating Revenue – Met: 10.4% avg. (< 5%)
- Unrestricted Cash & Cash Equivalents as Portion of All Revenue – Not met: 15 days (< 90 days)

*Summary of Financial Findings and Special Considerations:* Libertas projects a positive operative revenue from 2015-16 through 2021-22. Major funding sources include federal income sources (LCFF Revenue, Title I and Title II funds, Child Nutrition Program and other federal income), state income sources (Child Nutrition Program, Mandate Block Grant and other state income), and other local income sources. In addition and on average, Libertas' available net working capital averages 10.4% as a portion of the operating expenses.

Libertas has chosen to enter into a loan repayment to cover the local matching share. Assuming a 3.0% interest rate, a 30-year repayment period, and a CSFP lease amount of \$13,000,000, Libertas' CSFP payment would be \$663,250, beginning in 2020-21. Libertas' adjusted net income of \$708,384 for 2020-21 and \$840,167 for 2021-22, would provide debt service coverage of 106.8% and 126.7% respectively, which is above the minimum requirement of 100%. The CSFP payments would represent 13.8% and 12.8% of projected operating revenues for each of these years, which within the preferred maximum range of 10-15%.

**Strengths, Weaknesses and Mitigants:**

- +/- Libertas outperformed their District counterpart in Mathematics assessment in their first academic year and performed comparably to a local elementary charter school. In English Language Arts, Libertas was outperformed by both the local elementary charter school and the District.
- + Libertas is financially viable based on a review of audited financials for 2015-16 and 2016-17, and projected budgets for 2017-18 through 2021-22 which staff considers reasonable.
- + Libertas' historical and projected financials present positive operating income for all years, averaging \$3,444,126.
- + Libertas does minimal fundraising and, therefore, will not have to rely on it to meet the debt service requirement.
- + Libertas meets debt service coverage without their projected fundraising amount by 106.8% in 2020-21 and by 126.7% in 2021-22, respectively. This meets the Program's minimum debt service coverage requirement of 100%.

**Staff Recommendation:** Staff recommends that the California School Finance Authority ("Authority" or "CSFA") Board determine that Libertas College Prep ("Libertas"), is financially sound for the purposes of Charter School Facilities Program ("Program" or "CSFP") Preliminary Apportionment. This determination as it relates to Preliminary Apportionment is in place for twelve months and assumes no financial, operational, or legal material findings within this time period. This recommendation is also contingent upon Libertas electing to have its CSFP payments intercepted at the state level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. Staff recommends that the Authority Board direct staff to notify the Office of Public School Construction ("OPSC") and the State Allocation Board regarding this determination.